

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LIVINGSTON COUNTY ROAD COMMISSION	County LIVINGSTON
Audit Date 12/31/04	Opinion Date 4/26/05	Date Accountant Report Submitted to State: JULY 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

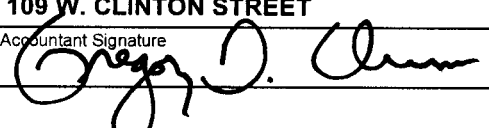
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

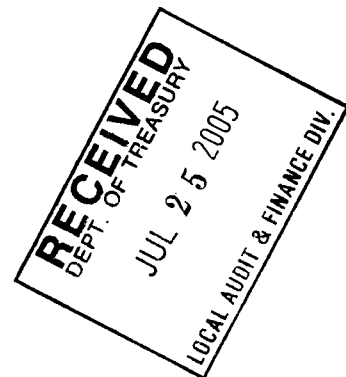
You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		✓	
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BREDERNITZ WAGNER & CO., P.C.			
Street Address 109 W. CLINTON STREET		City HOWELL	State MI
Accountant Signature 		ZIP 48843	Date JULY 21, 2005



LIVINGSTON COUNTY
ROAD COMMISSION

FINANCIAL REPORT
December 31, 2004

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HERBERT P. WAGNER, JR., CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of County
Road Commissioners
Livingston County
Howell, Michigan

We have audited the accompanying basic financial statements (as listed in the table of contents) of the Livingston County Road Commission, a component unit of Livingston County, as of and for the year ended December 31, 2004. These financial statements are the responsibility of Livingston County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with the standards as provided in Public Act 71 of 1919, as amended, being Section 21.41 of the Michigan Compiled Laws. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Livingston County Road Commission as of December 31, 2004, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of County
Road Commissioners

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The management's discussion and analysis (pages 3-13) and budgetary comparison information (pages 40-42) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Livingston County Road Commission's basic financial statements, taken as a whole. The introductory section, budgetary comparison information and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, budgetary comparison information and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Broderick, Wagner & Co., P.C.

Howell, Michigan
April 26, 2005

LIVINGSTON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004
(Unaudited)

Our discussion and analysis of Livingston County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts — management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down among primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all the Road Commission's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Livingston County Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds, reporting the operations in more detail than the government-wide statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the financial status of the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's development and growth, the condition of the Road Commission's roads, and changes in the law related to motor vehicle taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has three funds, the special revenue fund, the debt service fund and the fiduciary fund.

All of the Road Commission's activities are accounted for in the special revenue fund. The debt service fund accounts for the capital lease payments to the Livingston County Building Authority. These funds are governmental fund types. Our analysis of the Road Commission's major fund, the special revenue fund, begins on page 9. The fund financial statements begin on page 16 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of the funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Reporting the Road Commission as a Whole (Concluded)

Fund Financial Statements (Concluded)

operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds in a reconciliation following the fund financial statements.

The fiduciary fund statements provide financial information about activities for which the Livingston County Road Commission acts solely as a trustee or agent for the benefit of the employees of the Road Commission.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 5.49%, or \$3,564,305, from \$64,936,465 to \$68,500,770 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital fixed assets, net of related debt) are considered restricted. The restricted net assets increased by \$1,597,855 during 2004.

The investment in capital fixed assets, net of related debt, increased by \$1,966,450. The increase in net assets is primarily the result of the increase in infrastructure of \$5,986,286 for the year 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets (Concluded)

Net assets as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Current and Other Assets	\$ 7,240,210	5,868,872
Capital Assets, Net	<u>67,100,359</u>	<u>65,552,867</u>
Total Assets	<u>74,340,569</u>	<u>71,421,739</u>
Long-Term Debt Outstanding	5,566,233	6,324,988
Other Liabilities	<u>273,566</u>	<u>160,286</u>
Total Liabilities	<u>5,839,799</u>	<u>6,485,274</u>
Net Assets		
Invested in Capital Fixed		
Assets Net of Debt	63,597,321	61,630,871
Restricted	<u>4,903,449</u>	<u>3,305,594</u>
Total Net Assets	<u>\$68,500,770</u>	<u>64,936,465</u>

LIVINGSTON COUNTY ROAD COMMISSION

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

Change in Net Assets

A comparative summary of changes in net assets for the years ended December 31, 2004 and 2003, is as follows:

	<u>Governmental Activities</u>	
	<u>12/31/04</u>	<u>12/31/03</u>
Program Revenues:		
State grants	\$12,236,877	10,876,192
Federal grants	2,035,834	1,155,833
Charges for services	13,100	53,304
Contributions from local units	1,714,136	4,052,842
Interest income	51,206	62,993
Investment and rental income	45,368	29,747
Other revenues	145,387	224,405
General Revenue:		
Gain on equipment disposal	7,275	403,055
Proceeds from insurance settlement	-	112,316
Total Revenues	<u>16,249,183</u>	<u>16,970,687</u>
Expenses:		
Public works	12,413,304	10,880,158
Interest expense	271,574	319,736
Total Expenses	<u>12,684,878</u>	<u>11,199,894</u>
Increase in Net Assets	<u>\$ 3,564,305</u>	<u>5,770,793</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Continued)

The Road Commission's Fund

The Road Commission's special revenue fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the special revenue fund increased \$1,485,140 as compared to a increase of \$617,787 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$16,492,206, an increase of \$737,771 as compared to last year. This change in revenues resulted primarily from a decrease in township contributions of \$2,351,840.

For the year ended December 31, 2004, total expenditures were \$15,007,066, a decrease of \$1,605,124 as compared to last year. There was an increase in net capital outlay in the amount of \$334,861 from the prior year.

A summary of changes in the Operating Fund is shown on the following page.

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LIVINGSTON COUNTY ROAD COMMISSION

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Financial Analysis of the Road Commission as a Whole (Concluded)

The Road Commission's Fund (Concluded)

	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>Difference</u>	<u>Variance %</u>
Revenues:				
State aid	\$ 12,236,877	10,876,192	1,360,685	12.51 %
Federal aid	2,035,834	1,155,833	880,001	76.14
Charges for services	13,100	53,304	(40,204)	(75.42)
Contributions from local units	1,884,108	4,235,948	(2,351,840)	(55.52)
Special assessments	73,051	76,184	(3,133)	(4.11)
Interest income	51,206	62,993	(11,787)	(18.71)
Investment and rental income	45,368	29,747	15,621	52.51
Gain on disposal of assets	7,275	403,055	(395,780)	(98.20)
Proceeds from insurance settlement	-	112,316	(112,316)	(100.00)
Other revenues	145,387	224,405	(79,018)	(35.21)
Total revenues	<u>16,492,206</u>	<u>17,229,977</u>	<u>(737,771)</u>	<u>(4.28)</u>
Expenditures:				
Primary road	5,890,517	6,369,369	(478,852)	(7.52)
Local road	6,237,806	8,230,177	(1,992,371)	(24.21)
Primary road structures	1,217,093	399,865	817,228	204.38
Local road structures	116,442	152,193	(35,751)	(23.49)
Roadside parks	6,186	6,899	(713)	(10.33)
Equipment	(433,018)	(190,136)	(242,882)	127.74
Administrative	701,354	603,761	97,593	16.16
Capital outlay	212,649	(122,212)	334,861	(274.00)
Debt service:				
Principal retirement	770,368	832,566	(62,198)	(7.47)
Interest and fiscal charges	287,669	329,708	(42,039)	(12.75)
Total expenditures	<u>15,007,066</u>	<u>16,612,190</u>	<u>(1,605,124)</u>	<u>(9.66)</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>1,485,140</u>	<u>617,787</u>	<u>867,353</u>	<u>140.40</u>
Other financing sources (uses):				
Operating transfers in	533,863	527,900	5,963	1.13
Operating transfers out	(533,863)	(527,900)	(5,963)	(1.13)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	
Excess (Deficiency) of revenues and other sources over (under) expenditures and other uses	<u>1,485,140</u>	<u>617,787</u>	<u>867,353</u>	<u>140.40</u>
Fund Balances - beginning	<u>4,633,834</u>	<u>4,016,047</u>	<u>617,787</u>	<u>15.38</u>
Fund Balances - ending	<u>\$ 6,118,974</u>	<u>4,633,834</u>	<u>1,485,140</u>	<u>32.05</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at the time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$1,395,249 lower than the original budget primarily due to the Road Commission not receiving certain federal aid projects during the year as originally planned. There was also a decrease in township contributions. The actual revenue recognized during 2004 was less than the final amended budget by \$409,220.

The final amended expenditure budget for 2004 was \$989,698 lower than the original budget primarily due to lower than anticipated project expenses. There was also a decrease in local road heavy maintenance expenditures as a result of a decrease in township contributions. The actual expenditures recognized during 2004 were less than the final amended budget by \$2,329,410. There were some unfavorable variance expenditure line-items as disclosed in Note 16 of the financial statement notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2004, the Road Commission had invested \$121,577,113 in capital assets. This amount represents a net increase (including additions and deductions) of \$6,873,387 or 5.99% as follows:

	<u>12/31/04</u>	<u>12/31/03</u>	<u>Variance</u>	<u>Variance %</u>
Capital assets not being depreciated:				
Land and improvements	\$ 267,939	267,939	-	- %
Land/right-of-way	<u>579,301</u>	<u>579,301</u>	-	-
Subtotal	<u>847,240</u>	<u>847,240</u>	-	-
Capital assets being depreciated:				
Buildings	6,993,816	6,988,261	5,555	0.08
Road equipment	8,001,677	7,147,313	854,364	11.95
Office equipment	402,993	382,301	20,692	5.41
Engineering equipment	109,920	110,528	(608)	(0.55)
Shop equipment	182,820	180,548	2,272	1.26
Yard and storage equipment	71,497	66,671	4,826	7.24
Depletable assets	488,543	488,543	-	-
Infrastructure	<u>104,478,607</u>	<u>98,492,321</u>	<u>5,986,286</u>	6.08
Subtotal	<u>120,729,873</u>	<u>113,856,486</u>	<u>6,873,387</u>	6.04
Total capital assets	121,577,113	114,703,726	6,873,387	5.99
Total accumulated depreciation	<u>54,476,754</u>	<u>49,150,859</u>	<u>5,325,895</u>	10.84
Total net capital assets	<u>\$ 67,100,359</u>	<u>65,552,867</u>	<u>1,547,492</u>	2.36

The Road Commission reported the infrastructure acquired during the current year in the amount of \$5,986,286. The infrastructure recorded is depreciated over the estimated useful lives of the infrastructure assets using the half-year convention of straight-line depreciation. The infrastructure is financed through federal, state and local contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2004
(Unaudited)

Capital Assets and Debt Administration (Concluded)

Capital Assets (Concluded)

This year's major capital asset additions included the following:

Reconstruction of bridges	\$ 104,754
Various resurfacing projects and related reconstruction	4,294,182
New construction	1,587,350
Other equipment	<u>991,109</u>
Total additions	<u>\$6,977,395</u>

Each year the Road Commission disposes of obsolete and worn out equipment. During 2004, the Road Commission traded in and/or disposed of equipment (road and engineering) with a purchase amount of \$104,008, related accumulated depreciation of \$101,083, and net book value of \$2,925.

Debt

At the year end, the Road Commission had \$5,197,877 in bonds, sewer assessments, and installment purchase agreements versus \$5,968,399 as of December 31, 2003, a decrease of 12.91% as shown below:

	<u>12/31/04</u>	<u>12/31/03</u>	<u>Variance</u>	<u>Variance %</u>
Bonds payable	\$1,665,000	2,010,000	345,000	18.48%
Sewer assessment	29,837	36,403	6,566	18.04
Capital lease agreements	<u>3,503,040</u>	<u>3,921,996</u>	<u>418,956</u>	10.68
Total	<u>\$5,197,877</u>	<u>5,968,399</u>	<u>770,522</u>	12.91

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 8 of the financial statement notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)
For the Year Ended December 31, 2004
(Unaudited)

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 70% of its revenues from the motor vehicle tax collected. Using Michigan Department of Transportation projection, it is estimated that the Road Commission will receive approximately the same amount of Michigan Transportation Fund revenues in 2005 as in 2004. The Road Commission received approximately 11% of its revenues from township contributions during 2004; this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2005, we expect to receive at least \$3,000,000 in federal and state aid for road projects, some of which was deferred from 2004.

The above items were considered when adopting the budget for 2005. Amounts available for appropriation in the budget are \$21,918,658, an increase of 17.89% over the 2004 budget of \$18,591,740.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Livingston County Road Commission's administrative offices at (517)546-4250 ext. 116.

LIVINGSTON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2004

ASSETS

Cash and cash investments	\$ 3,012,045
Accounts receivable (Note 4):	
State highway - other	1,976,233
Due on county road agreements	809,816
Due on special assessments	253,819
Sundry accounts	42,696
Inventories:	
Equipment, materials and parts	300,272
Fuel	105,709
Road materials	739,620
Capital assets net of accumulated depreciation (Note 5)	<u>67,100,359</u>
Total Assets	<u>74,340,569</u>

LIABILITIES

Current Liabilities:	
Accounts payable	224,757
Due to State of Michigan	2,364
Developers escrow	10,529
Interest payable	35,916
Long-term debt - due within one year (Note 8)	<u>1,577,911</u>
Total Current Liabilities	<u>1,851,477</u>
Noncurrent Liabilities:	
Long-term debt - due after one year (Note 8)	<u>3,988,322</u>
Total Liabilities	<u>5,839,799</u>

NET ASSETS

Investment in capital fixed assets net of related debt	63,597,321
Restricted for County Road	<u>4,903,449</u>
Total Net Assets	<u>\$ 68,500,770</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

Program Expenses:	
Primary road	\$ 2,919,333
Local road	4,061,094
Primary road structures	464,936
Local road structures	30,210
Roadside parks	6,186
Administrative	701,354
Compensated absences	11,767
Equipment - net	(433,018)
Depreciation	4,651,442
Interest expense	271,574
	<hr/>
Total Program Expenses	12,684,878
	<hr/>
Program Revenue:	
State grants	12,236,877
Federal grants	2,035,834
Charges for services	13,100
Contributions from local units	1,714,136
Interest income	51,206
Investment and rental income	45,368
Other revenues	145,387
	<hr/>
Total Program Revenue	16,241,908
	<hr/>
Net Program Revenue	3,557,030
	<hr/>
General Revenue:	
Gain on equipment disposal	7,275
	<hr/>
Change in Net Assets	3,564,305
Net Assets - January 1, 2004	64,936,465
	<hr/>
Net Assets - December 31, 2004	\$ 68,500,770
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET

December 31, 2004

ASSETS	Special Revenue	Debt Service	Total
Cash and cash investments (Note 3)	\$ 3,012,045	-	3,012,045
Accounts receivable (Note 4):			
State highway - other	1,976,233	-	1,976,233
Due on county road agreements	809,816	-	809,816
Due on special assessments	253,819	-	253,819
Sundry accounts	42,696	-	42,696
Inventories:			
Equipment, materials and parts	300,272	-	300,272
Fuel	105,709	-	105,709
Road materials	739,620	-	739,620
Total Assets	\$ <u>7,240,210</u>	<u>-</u>	<u>7,240,210</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 224,757	-	224,757
Deferred revenue (Note 4)	883,586	-	883,586
Due to State of Michigan	2,364	-	2,364
Developers escrow	10,529	-	10,529
Total Liabilities	<u>1,121,236</u>	<u>-</u>	<u>1,121,236</u>
Fund Equity:			
Fund Balances:			
Reserved for inventories	1,145,601	-	1,145,601
Unreserved:			
Undesignated	4,973,373	-	4,973,373
Total Fund Equity	<u>6,118,974</u>	<u>-</u>	<u>6,118,974</u>
Total Liabilities and Fund Equity	\$ <u>7,240,210</u>	<u>-</u>	<u>7,240,210</u>

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS

For the Year Ended December 31, 2004

Total Governmental Fund Balance \$ 6,118,974

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not
reported in the governmental funds. 67,100,359

Deferred revenue is not available to pay for current
period expenditures and therefore is not reported in
the governmental funds. 883,586

Interest expense does not require the use of
current financial resources and therefore is not
reported as an expenditure in the governmental funds. (35,916)

Long-term liabilities are not due and payable in the
current period and therefore not reported in the
governmental funds. (5,566,233)

Net Assets of Governmental Activities \$ 68,500,770

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2004

	Special Revenue	Debt Service	Total
Revenues:			
State grants	\$ 12,236,877	-	12,236,877
Federal grants	2,035,834	-	2,035,834
Charges for services	13,100	-	13,100
Contributions from local units	1,884,108	-	1,884,108
Special assessments	73,051	-	73,051
Interest income	51,206	-	51,206
Investment and rental income	45,368	-	45,368
Gain on disposal of assets	7,275	-	7,275
Other revenues	145,387	-	145,387
Total Revenues	16,492,206	-	16,492,206
Expenditures:			
Primary road	5,890,517	-	5,890,517
Local road	6,237,806	-	6,237,806
Primary road structures	1,217,093	-	1,217,093
Local road structures	116,442	-	116,442
Roadside parks	6,186	-	6,186
Equipment	(433,018)	-	(433,018)
Administrative	701,354	-	701,354
Capital outlay (Note 6)	212,649	-	212,649
Debt service:			
Principal retirement	395,368	375,000	770,368
Interest and fiscal charges	128,806	158,863	287,669
Total Expenditures	14,473,203	533,863	15,007,066
Excess (Deficiency) of Revenues over (under) Expenditures	2,019,003	(533,863)	1,485,140
Other Financing Sources (Uses):			
Operating transfers in	-	533,863	533,863
Operating transfers out	(533,863)	-	(533,863)
Total Other Financing Sources (Uses)	(533,863)	533,863	-
Excess (Deficiency) of Revenues and Other Sources over (under) Expenditures and Other Uses	1,485,140	-	1,485,140
Fund Balances - January 1, 2004	4,633,834	-	4,633,834
Fund Balances - December 31, 2004	\$ 6,118,974	-	6,118,974

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

Net change in fund balance - total governmental funds \$ 1,485,140

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,547,492

Repayment of notes/leases payable is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets. 770,368

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Decrease in interest expense	16,095
Increase in compensated absences	(11,767)

Deferred revenues collected during the year are not considered current revenues in the statement of activities. (243,023)

Change in Net Assets of Governmental Activities \$ 3,564,305

The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF NET ASSETS

December 31, 2004

ASSETS

Mutual funds	\$ <u>2,294,847</u>
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NET ASSETS

Held in trust for employee benefits	\$ <u><u>2,294,847</u></u>
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The Notes to Financial Statements are an integral part of this statement.

LIVINGSTON COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF CHANGE IN NET ASSETS

For the Year Ended December 31, 2004

Additions:	
Net investment earnings	\$ 149,787
Employee contributions	<u>227,875</u>
Total additions	<u>377,662</u>
Deductions:	
Asset fees	7,408
Employee withdrawals/transfers	<u>43,185</u>
Total deductions	<u>50,593</u>
Change in net assets	327,069
Net assets - January 1, 2004	<u>1,967,778</u>
Net assets - December 31, 2004	<u>\$ 2,294,847</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION

Definition of the reporting entity:

The Livingston County Road Commission, which is established pursuant to the county road law (MCL 224.1), is governed by an appointed three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of Livingston County, as approved by the county electors, and would be included as part of the County's total tax levy, as well as reported in the Livingston County Road Fund.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 The Financial Reporting Entity, these financial statements present the Local Unit which is a component unit of Livingston County. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, the financial statements present Livingston County Road Commission, a discreetly presented component unit of Livingston County.

Basis of presentation:

Government-wide Financial Statements:

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Livingston County Road Commission. There are two funds reported in the government-wide financial statements, the Special Revenue Fund (which serves as the general operating fund) and the Debt Service Fund. The Special Revenue Fund is the only major fund.

The Statement of Net Assets presents the Livingston County Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Basis of presentation (continued):

Government-wide Financial Statements (concluded):

1. Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment,
2. Grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items are not considered program revenues and are reported instead as general revenue.

Fund Financial Statements:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Livingston County Road Commission, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds which are maintained in accordance with the activities or objectives specified. A brief description of each of the types of funds, as they apply to the Road Commission, is noted below.

Governmental Funds:

Governmental funds include the following fund types:

Special Revenue Fund: This fund is used to account for specific revenues which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The Road Commission Operating Fund is used to control expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for street and highway purposes.

Debt Service Fund: This fund accounts for the accumulation of resources for, and the payment of, interest and principal on general long-term debt. This fund is being used to account for the repayment of long-term debt used to finance the Livingston County Road Commission's current facility.

Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Concluded)

Basis of presentation (concluded):

Fiduciary Fund:

The fiduciary fund accounts for assets held by the government in a trustee capacity on behalf of others. This fund is accounted for using the accrual basis of accounting.

Trust Fund: This fund accounts for assets held by the governmental unit in a trustee capacity for individuals. The only trust fund of the Livingston County Road Commission is an expendable trust fund for deferred compensation of employees.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Livingston County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards board (GASB) is the standard-setting body for governmental accounting and financial reporting. A summary of the significant accounting policies used by the Livingston County Road Commission is listed below.

Measurement Focus/Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting (concluded)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Cash Equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Investments:

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

Inventories:

Inventories are stated at cost as determined using an average costing method. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as used.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements.

Capital assets are defined by the Livingston County Road Commission as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost at the time of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation:

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and the straight-line method for all other fixed assets and for infrastructure.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation (concluded):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, in the Fund Financial Statements, the annual depreciation expense does not affect the available operating equity of the Special Revenue Fund.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Engineering equipment	4 to 10 years
Office equipment	4 to 10 years
Yard and storage equipment	10 to 20 years
Infrastructure-roads	8 to 30 years
Infrastructure-bridges	12 to 50 years

Capitalized Interest:

There were no capitalized interest costs incurred by the Livingston County Road Commission during the year ended December 31, 2004.

Compensated Absences (Vacation and Sick Leave):

The estimated portion of the liability for vested vacation and sick leave benefits attributable to the Livingston County Road Commission's governmental funds is recorded as an expenditure and liability in the respective funds. The amount payable to employees for compensated absences is included in the government-wide financial statements. Please see Note 7 for more detail.

Non-Exchange Transactions:

The Livingston County Road Commission participates in voluntary non-exchange transactions with the Michigan Department of Transportation in the form of contracted road construction projects. The Road Commission records the revenue and corresponding construction expense throughout the year as the project completion vouchers are received. These amounts have been included as infrastructure in the government-wide Statement of Net Assets.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations:

In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities of the Special Revenue Fund.

Fund Equity:

Reserves of fund equity in the Fund Financial Statements represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Compensation Plan:

The Livingston County Road Commission offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were transferred to a trust held in a custodial account as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. In accordance with GASB Statement No. 32 requirements, the assets of the trust are reported in a fiduciary fund and are not reflected in the Livingston County Road Commission's financial statements. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The Administrator, Nationwide Retirement Solutions, is agent of the employer for purposes of providing direction to the custodian of the custodial account, from time to time, as to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Budgets and Budgetary Accounting:

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, MCL 141.421, which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's managing director prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and approves the budget. The budget is amended as necessary during the year and all amendments are approved by the Board. Appropriations lapse at year end. The budget is prepared on the modified accrual basis of accounting, which is the same basis used for the fund financial statements.

Note 3. CASH AND CASH INVESTMENTS

Deposits are carried at cost. The Livingston County Treasurer handles investments for the Road Commission. Deposits of the Livingston County Road Commission are in the name of the Livingston County Treasurer. The Livingston County Road Commission follows the same investment policy as Livingston County. Livingston County's investment policy authorizes the County Treasurer to invest in the following types of securities: bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; United States or Federal agency obligation repurchase agreements; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution; commercial paper rated at the time of purchase at the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; bankers' acceptances of United States banks; obligations of the state or any of its political subdivisions that, at the time of purchase, are rated as investment grade by not less than one standard rating service; obligations described above if purchased through an interlocal agreement under the urban cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Livingston County Road Commission's deposits and investments are in accordance with statutory authority and the provisions of PA 20 of 1943.

Note 3. CASH AND CASH INVESTMENTS (Concluded)

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 76,845
Investments in securities and similar vehicles	2,935,000
Petty cash and cash on hand	200
Total cash and cash investments	<u>\$3,012,045</u>

As the Livingston County Road Commission's cash is combined with all of Livingston County's cash and investments, the amount, if any, of Livingston County Road Commission funds that were covered by Federal Depository Insurance of \$100,000, was not determinable.

The Livingston County Road Commission has investments with Nationwide Retirement Solutions for the Employee's Deferred Compensation Plan, which has a carrying amount and market value of \$2,294,847. The nature of the mutual funds does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

Note 4. ACCOUNTS RECEIVABLE/DEFERRED REVENUE

The accounts receivable (and deferred revenue) recorded in the Road Commission's Statement of Net Assets (and the Balance Sheet) can be summarized as follows:

	<u>Accounts Receivable</u>	<u>Deferred Revenue</u>
State highway - other	\$1,976,233	-
Due on county road agreements	809,816	629,767
Due on special assessments	253,819	253,819
Sundry accounts	42,696	-
	<u>\$3,082,564</u>	<u>883,586</u>

Note 5. CAPITAL ASSETS

A summary of capital asset activity follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital Assets Not Being Depreciated:				
Land and improvements	\$ 267,939	-	-	267,939
Land easements/right of way	579,301	-	-	579,301
Subtotal	847,240	-	-	847,240
Capital Assets Being Depreciated:				
Buildings	6,988,261	5,555	-	6,993,816
Road equipment	7,147,313	950,408	96,044	8,001,677
Shop equipment	180,548	2,272	-	182,820
Office equipment	382,301	20,692	-	402,993
Engineering equipment	110,528	7,356	7,964	109,920
Yard and storage	66,671	4,826	-	71,497
Infrastructure-roads	87,689,265	5,147,897	-	92,837,162
Infrastructure-bridges	10,803,056	838,389	-	11,641,445
Depletable assets	488,543	-	-	488,543
Subtotal	113,856,486	6,977,395	104,008	120,729,873
Less Accumulated Depreciation:				
Buildings	1,839,328	149,875	-	1,989,203
Road equipment	5,899,869	588,974	95,176	6,393,667
Shop equipment	171,477	4,094	-	175,571
Office equipment	308,676	23,050	-	331,726
Engineering equipment	71,468	7,120	5,907	72,681
Yard and storage	31,698	5,346	-	37,044
Infrastructure-roads	38,855,721	4,428,473	-	43,284,194
Infrastructure-bridges	1,853,637	220,046	-	2,073,683
Depletable assets	118,985	-	-	118,985
Subtotal	49,150,859	5,426,978	101,083	54,476,754
Net Capital Assets Being Depreciated	64,705,627	1,550,417	2,925	66,253,119
Total Net Capital Assets	\$ 65,552,867	1,550,417	2,925	67,100,359

The amount of depreciation (on all assets except infrastructure) distributed to the various accounts of the Livingston County Road Commission is as follows:

Equipment expense - direct	\$596,095
Equipment expense - indirect	159,315
Administrative	23,050
Total depreciation expense	\$778,460

Note 6. CAPITAL OUTLAY

In the Fund Financial Statements, the Livingston County Road Commission follows the accounting principle generally accepted in the United States of America for Road Commissions of charging depreciation expense to various expenditure accounts as listed in Note 5. The offsetting entry is to credit a depreciation account which is offset against capital outlay for report purposes. Actual capital outlay and current depreciation for 2004 were \$991,109 and \$778,460, respectively, resulting in a net capital outlay debit of \$212,649.

Note 7. ACCUMULATED VACATION AND SICK LEAVE

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each calendar year, not to exceed a total accumulation of 30 days.

Sick leave is accumulated at the rate of one day for each month of service, not to exceed a total accumulation of 60 days.

It is the policy of the Road Commission to pay unused vacation pay at death, retirement or voluntary resignation up to an amount not to exceed 30 days; sick pay is payable up to 35 days when an employee retires or dies. Board policy states that no payment is to be made for unused sick leave upon separation of employment except by retirement or death.

Total accumulated vacation and sick leave has been recorded in the Statement of Net Assets. At December 31, 2004, accumulated vacation and sick leave due to employees at retirement was \$176,529 and \$191,827, respectively.

Note 8. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended December 31, 2004:

	Balance January 1, 2004	Additions (Deductions)	Balance December 31, 2004
1995 capital lease payable to Livingston County, due in variable semi-annual installments through July 1, 2008, interest ranging from 4.25% to 5.8%, liability shown net of interest	\$2,095,000	(375,000)	1,720,000
2001 capital lease payable to Livingston County, due in variable semi-annual installments through July 1, 2010, interest ranging from 3.2% to 4.35%, liability shown net of interest	1,110,000	-	1,110,000
Special assessment payable, payable in annual installments of \$9,456 through 2008, including interest at 8.08%	36,403	(6,566)	29,837
Livingston County, 1999 Michigan Transportation Fund Notes, dated August 1, 1999, payable in annual installments of \$95,000 through 2009, plus interest ranging from 5.0% to 6.49%	570,000	(95,000)	475,000
Livingston County, 1999B Michigan Transportation Fund Notes dated August 1, 1999, payable in annual installments of \$80,000 through 2004, plus interest ranging from 4.7% to 6.45%	80,000	(80,000)	-
Livingston County, 2001 Michigan Transportation Fund Notes dated July 1, 2001, payable in annual installments of \$170,000 through 2011, plus interest ranging from 4.0% to 4.35%	1,360,000	(170,000)	1,190,000
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$16,801, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	132,632	(9,630)	123,002
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$16,801, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	132,632	(9,630)	123,002
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$18,552, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	157,510	(9,981)	147,529
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$18,552, including interest at 5.9%, through 2004, remaining balance due 2005, secured by equipment	157,510	(9,981)	147,529
Caterpillar Financial Services Corporation, capital lease, due in annual installments of \$8,748, including interest at 3.0%, through 2006, remaining balance due 2007, secured by equipment	136,712	(4,734)	131,978
Accrued compensated absences	356,589	11,767	368,356
	<u>\$6,324,988</u>	<u>(758,755)</u>	<u>5,566,233</u>

Note 8. LONG-TERM DEBT (Concluded)

The current and long-term portions of Livingston County Road Commission's long-term debt are summarized below:

	<u>Due within one year</u>	<u>Due after one year</u>
1995 capital lease payable to Livingston County	\$ 390,000	1,330,000
2001 capital lease payable to Livingston County	-	1,110,000
Special assessment payable Livingston County, 1999 Michigan Transportation Fund Notes	7,045	22,792
Livingston County, 2001 Michigan Transportation Fund Notes	95,000	380,000
Caterpillar Financial Services Corporation, capital lease	170,000	1,020,000
Caterpillar Financial Services Corporation, capital lease	123,002	-
Caterpillar Financial Services Corporation, capital lease	123,002	-
Caterpillar Financial Services Corporation, capital lease	147,529	-
Caterpillar Financial Services Corporation, capital lease	147,529	-
Caterpillar Financial Services Corporation, capital lease	6,448	125,530
Accrued compensated absences	368,356	-
	<u>\$1,577,911</u>	<u>3,988,322</u>

The annual requirements to amortize all debt outstanding as of December 31, 2004 (plus interest payments of \$777,557) are as follows:

2005	\$1,577,911
2006	692,596
2007	838,778
2008	741,948
2009	810,000
Thereafter	905,000
	<u>\$5,566,233</u>

Aggregate maturities of the capital lease obligations are shown in Note 9.

As of December 31, 2004, the Livingston County Road Commission was not liable for any short-term debt.

Note 9. CAPITAL LEASE OBLIGATIONS

The Livingston County Road Commission entered into a long-term lease agreement with Livingston County for financing construction of a new facility for the Road Commission. The lease provides for semi-annual payments in amounts sufficient to meet annual debt service requirements on bonds issued by the Livingston County Building Authority. The bonds have been pledged with the full faith and credit of Livingston County. The Livingston County Building Authority leases the building to Livingston County which, in turn, sub-leases the building to the Road Commission. The Road Commission is responsible for all costs associated with the building including repairs, maintenance, assessments and utilities. Since the lease is a financing arrangement which transfers ownership of the facility to the Road Commission at the conclusion of the lease term, related transactions have been recorded in the appropriate funds. Debt service payments on the long-term debt are recorded in the Debt Service Fund.

Lease obligations are reported in the Statement of Net Assets. Capital outlay for the new facility is included in the Capital Assets as follows:

Fixed Asset Accounts:

Land	\$ 70,070
Buildings	6,113,249
Shop equipment	96,162
Office equipment	135,011
Engineering equipment	12,333
Yard and storage	<u>20,909</u>
Total fixed asset accounts	<u>6,447,734</u>

Accumulated Depreciation:

Buildings	1,808,883
Shop equipment	96,162
Office equipment	135,011
Engineering equipment	12,333
Yard and storage	<u>20,909</u>
Total accumulated depreciation	<u>2,073,298</u>
Net capital lease assets	<u>\$4,374,436</u>

Note 9. CAPITAL LEASE OBLIGATIONS (Concluded)

Future minimum lease payments to be paid by the Livingston County Road Commission to Livingston County for the building capital lease are as follows:

2005	\$ 527,620
2006	530,055
2007	535,115
2008	533,580
2009	594,950
Thereafter	590,425
Total minimum lease payments	<u>3,311,745</u>
Less amounts representing interest, 4.25% to 9.5%	<u>481,745</u>
Present value of future minimum lease payments (included in Note 8)	<u>\$2,830,000</u>

During 2000, the Livingston County Road Commission entered into four capital lease agreements with Caterpillar Financial Services Corporation for the lease of four motor graders. The lease agreements will transfer ownership of the equipment to the Livingston County Road Commission at the end of the lease term.

During 2002, the Livingston County Road Commission entered into a capital lease agreement with Caterpillar Financial Services Corporation for the lease of a motor grader. The lease agreement will transfer ownership of the equipment to the Livingston County Road Commission at the end of the lease term.

Capital outlay for the equipment is included in the Livingston County Road Commission government-wide Statement of Net Assets in the amount of \$880,692. Accumulated depreciation on the motor graders at year end was \$650,475, resulting in a net book value of \$230,217.

Future minimum lease payments to be paid by the Livingston County Road Commission on the leased equipment are as follows:

2005	\$560,394
2006	8,748
2007	<u>124,164</u>
Total minimum lease payments	<u>693,306</u>
Less amounts representing interest at 5.9% and 3.0%	<u>20,266</u>
Present value of future minimum lease payments (included in Note 8)	<u>\$673,040</u>

Note 10. PENSION PLAN

A. Plan Description

The Livingston County Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by 2.5 percent times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

B. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Livingston County Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Livingston County Road Commission is required to contribute at an actuarially determined rate. The current rate was 12.66 percent at December 31, 2004.

C. Annual Pension Cost

During the fiscal year ended December 31, 2004, the Livingston County Road Commission's contributions totaling \$376,746 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his

Note 10. PENSION PLAN (Concluded)

C. Annual Pension Cost (Concluded)

projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

D. Three Year Trend Information

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$302,124	100%	None
2003	308,798	100	None
2004	376,746	100	None

E. Required Supplementary Information - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$10,619,963	\$12,075,209	\$1,455,246	87.9%	\$3,125,892	46.6%
12/31/03	11,296,250	12,887,355	1,591,105	87.7	3,152,867	50.5
12/31/04	11,937,158	14,575,528	2,638,370	81.9	3,674,265	71.8

Note 11. RISK MANAGEMENT

The Livingston County Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for general liability, auto liability, errors and omissions, building and contents, equipment physical damage, and employee benefit programs. The employee benefits program provides coverage for group life insurance, group accident or health insurance, workers' compensation, unemployment, and disability insurance. In addition, the Road Commission has purchased a commercial health insurance policy to cover medical and sick benefits. The Road Commission is uninsured for acts of God and environmental cleanup losses.

The Michigan County Road Commission Self-Insurance Pool operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase insurance coverage and pay member claims in excess of deductible amounts. The Road Commission currently has a \$1,000 deductible for each automobile liability occurrence, \$2,500 deductible for each error and omission liability occurrence, and a \$5,000 deductible for

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 11. RISK MANAGEMENT (Concluded)

each and every loss incurred on the remaining lines of coverage. The risk pool's coverage will pay losses up to \$10,500,000 per occurrence. Any liability for losses which exceed this amount would remain with the Road Commission. The Livingston County Road Commission has never incurred any losses which have exceeded the insured amount; therefore, an adjustment for incurred but not reported claims has not been accrued.

Note 12. OTHER POSTRETIREMENT BENEFITS

In addition to the pension benefits described in Note 10, the Road Commission provides postretirement health care benefits to all employees who retire from the Road Commission, in accordance with the agreement between the Board of County Road Commissioners and the American Federation of State, County, and Municipal Employees Council #25 AFL-CIO Local #1071. Currently, there are thirty-nine retirees. The Road Commission provides health insurance coverage for retirees on a "pay as you go" basis. If spousal coverage is elected, the retiree must bear the cost of the insurance premiums for the spouse. Expenditures for postretirement health insurance are recognized when the premiums are paid. No expenditures were recognized during 2004 for postretirement health insurance premiums. This amount is net of employee reimbursements during 2004 of \$95,304.

Note 13. CONTINGENT LIABILITIES

The Livingston County Road Commission has been served in civil actions brought against it seeking damages from matters within the geographical limits of Livingston County. In the opinion of the administration and its corporation counsel, the settlement of these should have no material effect upon the financial position of the Road Commission.

Note 14. SUBSEQUENT EVENT

In April 2005, the Road Commission disposed of four leased motor graders. At December 31, 2004, the motor graders had a total net book value of \$148,772, resulting in a projected gain of \$402,729 for the year ended December 31, 2005.

Note 15. LEASE AGREEMENT WITH LIVINGSTON COUNTY

During 2002, the Livingston County Road Commission entered into an agreement to lease land to Livingston County for the purpose of constructing an ambulance station on the Livingston County Road Commission premises. The lease agreement is for a term of twenty years, with the option to renew for an additional twenty years at the lessee's sole option and an additional twenty years beyond that upon mutual agreement by both parties. Lease income for the lease term is \$1 per year.

Note 16. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The approved budget of the Livingston County Road Commission is adopted to the activity level. During the year, expenditures incurred in excess of amounts appropriated were as follows:

<u>Activity Level</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Equipment expense, direct	\$1,265,000	1,494,864	229,864
Capital outlay	925,600	991,109	65,509
Debt service, principal retirement	394,078	395,368	1,290

Note 17. FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$2,035,834 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. These contracted projects are included in MDOT's single audit. The Livingston County Road Commission is not subject to single audit requirements.

LIVINGSTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES
BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
State Grants:				
Michigan Transportation Fund				
Engineering	\$ 10,000	10,000	10,000	-
Primary urban road	864,000	899,833	899,835	2
Local urban road	435,000	430,361	430,361	-
Primary road	7,274,000	7,414,609	7,414,607	(2)
Local road	3,420,000	3,380,688	3,380,688	-
Highway construction - critical bridge	145,500	101,386	101,386	-
Economic development	872,237	547,195	-	(547,195)
Federal Grants:				
Secondary	3,258,343	1,490,000	1,278,238	(211,762)
Critical bridges	977,800	540,725	757,596	216,871
Charges for Services:				
Inspection fees	20,000	13,100	13,100	-
Contributions:				
Local units	786,217	1,772,584	1,884,108	111,524
Special Assessments	57,130	77,599	73,051	(4,548)
Interest Income	50,748	58,423	51,206	(7,217)
Investment and Rental Income	20,000	38,151	45,368	7,217
Gain on Disposal of Assets	5,000	10,000	7,275	(2,725)
Other Revenues:				
Permits	100,000	113,830	113,830	-
Maps	200	181	181	-
Accident claims	500	881	881	-
Miscellaneous	-	1,880	30,495	28,615
Total Revenues	18,296,675	16,901,426	16,492,206	(409,220)
Fund Balance - January 1, 2004	1,690,314	1,690,314		
Total Budget	\$ 19,986,989	18,591,740		

LIVINGSTON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 5,997,871	3,440,330	2,430,423	1,009,907
Routine maintenance	<u>3,369,500</u>	<u>3,675,000</u>	<u>3,460,094</u>	<u>214,906</u>
	<u>9,367,371</u>	<u>7,115,330</u>	<u>5,890,517</u>	<u>1,224,813</u>
Local Road:				
Heavy maintenance	900,000	2,924,100	2,518,188	405,912
Routine maintenance	<u>3,738,650</u>	<u>3,900,000</u>	<u>3,719,618</u>	<u>180,382</u>
	<u>4,638,650</u>	<u>6,824,100</u>	<u>6,237,806</u>	<u>586,294</u>
Primary Road Structures:				
Heavy maintenance	1,780,000	1,336,800	1,208,274	128,526
Routine maintenance	<u>15,000</u>	<u>15,000</u>	<u>8,819</u>	<u>6,181</u>
	<u>1,795,000</u>	<u>1,351,800</u>	<u>1,217,093</u>	<u>134,707</u>
Local Road Structures:				
Heavy maintenance	370,000	160,000	110,008	49,992
Routine maintenance	<u>10,000</u>	<u>10,000</u>	<u>6,434</u>	<u>3,566</u>
	<u>380,000</u>	<u>170,000</u>	<u>116,442</u>	<u>53,558</u>
Roadside Parks:				
Maintenance	<u>10,000</u>	<u>10,000</u>	<u>6,186</u>	<u>3,814</u>
Equipment Expense - Net				
Direct	1,259,963	1,265,000	1,494,864	(229,864)
Indirect	994,841	1,059,426	1,056,425	3,001
Operating	135,000	215,000	211,956	3,044
Less: Equipment rental	<u>(2,389,804)</u>	<u>(2,800,000)</u>	<u>(3,196,263)</u>	<u>396,263</u>
	<u>-</u>	<u>(260,574)</u>	<u>(433,018)</u>	<u>172,444</u>
Administrative Expense	<u>978,600</u>	<u>910,880</u>	<u>701,354</u>	<u>209,526</u>
Capital Outlay - Net				
Capital outlay	955,200	925,600	991,109	(65,509)
Less: Depreciation and depletion	<u>(880,000)</u>	<u>(768,696)</u>	<u>(778,460)</u>	<u>9,764</u>
	<u>75,200</u>	<u>156,904</u>	<u>212,649</u>	<u>(55,745)</u>
Debt Service:				
Principal retirement	402,854	394,078	395,368	(1,290)
Interest and fiscal charges	<u>140,349</u>	<u>130,096</u>	<u>128,806</u>	<u>1,290</u>
	<u>543,203</u>	<u>524,174</u>	<u>524,174</u>	<u>-</u>
Total Expenditures	\$ <u>17,788,024</u>	<u>16,802,614</u>	<u>14,473,203</u>	<u>2,329,411</u>

LIVINGSTON COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 STATEMENT OF OTHER FINANCING USES
 BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND
 For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Operating Transfer Out:				
Debt Service Fund	\$ <u>538,150</u>	<u>533,862</u>	<u>533,863</u>	<u>(1)</u>
Total Expenditures and Other Financing Uses	18,326,174	17,336,476	<u>15,007,066</u>	<u>2,329,410</u>
Fund Balance - December 31, 2004	<u>-</u>	<u>-</u>		
Total Budget	\$ <u>18,326,174</u>	<u>17,336,476</u>		

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total Revenues	\$ 10,458,548	5,771,322	262,336	16,492,206
Total Expenditures	<u>7,455,547</u>	<u>6,734,954</u>	<u>816,565</u>	<u>15,007,066</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>3,003,001</u>	<u>(963,632)</u>	<u>(554,229)</u>	<u>1,485,140</u>
Other Financing Sources (Uses):				
Operating transfers in	-	963,632	-	963,632
Operating transfers out	<u>(963,632)</u>	<u>-</u>	<u>-</u>	<u>(963,632)</u>
Total Other Financing Sources (Uses)	<u>(963,632)</u>	<u>963,632</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources over (under) Expenditures and Other Uses	2,039,369	-	(554,229)	1,485,140
Fund Balance - January 1, 2004	<u>1,448,115</u>	<u>-</u>	<u>3,185,719</u>	<u>4,633,834</u>
Fund Balance - December 31, 2004	<u>\$ 3,487,484</u>	<u>-</u>	<u>2,631,490</u>	<u>6,118,974</u>

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
State Grants:				
Michigan Transportation Fund:				
Engineering	\$ 6,868	3,132	-	10,000
Urban road	899,835	430,361	-	1,330,196
Allocation	7,414,607	3,380,688	-	10,795,295
Highway construction - critical bridge	95,295	6,091	-	101,386
Federal Grants:				
Secondary	1,270,436	7,802	-	1,278,238
Bridge	725,110	32,486	-	757,596
Charges for Services:				
Inspection fees	-	-	13,100	13,100
Contributions from Local Units	-	1,884,108	-	1,884,108
Special Assessments	46,397	26,654	-	73,051
Interest Income	-	-	51,206	51,206
Investment and Rental Income	-	-	45,368	45,368
Gain on disposal of assets	-	-	7,275	7,275
Other Revenue:				
Permits	-	-	113,830	113,830
Maps	-	-	181	181
Accident claims	-	-	881	881
Miscellaneous	-	-	30,495	30,495
Total Revenues	\$ 10,458,548	5,771,322	262,336	16,492,206

LIVINGSTON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES

SPECIAL REVENUE FUND
For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Road:				
Heavy maintenance	\$ 2,430,423	-	-	2,430,423
Maintenance	3,460,094	-	-	3,460,094
Local Road:				
Heavy maintenance	-	2,518,188	-	2,518,188
Maintenance	-	3,719,618	-	3,719,618
Primary Road Structures:				
Heavy maintenance	1,208,274	-	-	1,208,274
Maintenance	8,819	-	-	8,819
Local Road Structures:				
Heavy maintenance	-	110,008	-	110,008
Maintenance	-	6,434	-	6,434
Roadside Parks:				
Maintenance	6,186	-	-	6,186
Equipment Expense - Net	(154,371)	(257,516)	(21,131)	(433,018)
Administrative Expense	372,472	328,882	-	701,354
Capital Outlay - Net	-	-	212,649	212,649
Debt Service:				
Principal retirement	95,000	250,000	425,368	770,368
Interest and fiscal charges	28,650	59,340	199,679	287,669
Total Expenditures	\$ 7,455,547	6,734,954	816,565	15,007,066